

III. A. Despite Spain's apparent desire for a bi-lateral agreement with the US, Franco can be expected to demand extensive economic assistance and maximum political benefits for this association. Spain's needs in every field are so great that any government which bargained away the country's primary military assets without receiving concessions could not hope to survive. In addition, the Spanish government apparently feels that the value of its potential contribution merits large-scale assistance. Apart from economic assistance, discussed below, the regime can be expected to attempt to secure such political benefits as: guarantees of US assistance in the event of armed aggression; political support of the US for the present regime; a voice for Spain in the overall defense of the west; and US influence to temper western European criticism of the present government. War materiel would of course be requested. Any attempt by the US simply to furnish arms would probably be countered by economic demands in fields tangential to the purely military.

Franco's demands can be expected to vary considerably with the degree of international tension. In the event of actual war, the Spanish government would probably be content to receive air and naval support for its ground forces, and could be expected to cooperate fully with the US to protect Spain from invasion. A considerable lessening of world tension would also force the Spanish government to scale down its demands. Under present international conditions, Franco can be expected to demand the maximum price for Spanish assistance.

State Dept. declassification & release instructions on file

SECRET

2

III A.

The persistence of the Spanish negotiators in the current loan discussions with the Export Import bank in pressing for large scale, long-term development projects, some of questionable economic justification, suggests that Spain will not permit its overall economic development plans to be subordinated to Western defense requirements or to be interfered with by these.

The resentment of the Spaniards over what they consider the arbitrary criteria (principally the Bank's restrictions on loans to state enterprises and on long-term projects requiring great amounts of capital) of the Bank indicates that in essence what they oppose is interference with their economic programming.

In effect the Spanish representatives have challenged the Bank's right as a creditor to stipulate the conditions under which the \$62.5 million loan will be made available to them. The Spaniards hold that many of the projects which the Bank has encouraged them to submit while partly in Spanish interest are more to the strategic interests of the U. S. They insist that since the loan is a business loan guaranteed by the Spanish Government, the responsible Spanish economic planning authorities should be able to utilize the funds in the manner they deem best. The Spanish have also made it clear that, except in case of war, they do not consider themselves

SECRET

SECRET

bound by the mere fact of the loan to give military base rights or other concessions. These, they have implied, are matters to be discussed on a new and different quid pro quo basis.

It is therefore probable that the extension of even relatively minor privileges to the U. S. for strategic purposes will entail economic assistance of a larger order of magnitude than the present loan. The nature of the applications which have so far been submitted to the Export-Import Bank, the tenor of many recent public statements by Spanish officials in the Spanish press, and the still manifest pique of the Spaniards over having been excluded from the European Recovery Program suggest that ^{the} initial Spanish bargaining position will be for full scale economic assistance. What this would mean may be inferred from the program proposed in 1948 by a large private industrial Spanish bank. The bank's study, purportedly a private one, is believed to have constituted the government's outline of its economic needs and was prepared when there was hope that Spain would be included in the European Recovery Program. The program called for extraordinary imports over a period of four years of \$1.2 billion dollars and embraced foodstuffs and fodder, fertilizer, draft animals and tractors, capital equipment for all the sectors of industry, and for coal mining and railway equipment, fuels and industrial raw materials.

SECRET